

# FINANCIAL STATEMENT 2007/2008

## BIG 5 FALSE BAY MUNICIPALITY

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Clt. M.A. Mshali

Clt. P.M. Mduli

Total Number of Councilors: 7

## GRADING OF THE LOCAL AUTHORITY

Grade 1

## AUDITORS

Auditor General - Kwa Zulu-Natal

## BANKERS

First National Bank of SA, Main Str., Mthukwe

## REGISTERED OFFICE

163 Zebra Street  
Mthukwe  
3960

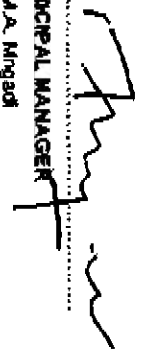
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Mthukwe  
3960

Telephone : 035 562 0040  
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e-mail : [mfo@big5falsebay.co.za](mailto:mfo@big5falsebay.co.za)


## APPROVAL OF FINANCIAL STATEMENTS

The annual financial statements set out on page 1 to 30 were approved by the Municipal Manager and the Acting Chief Financial Officer on the 13th of November 2008.

.....  
MUNICIPAL MANAGER  
Mr. M.A. Mngadi



.....  
ACTING CHIEF FINANCIAL OFFICER  
Mr. M.S.L. Mkhwanazi



## TREASURER'S REPORT

### 1) GENERAL REVIEW

For the period under review, the Council budgeted correct this period with expenditure equals to the total income expected to be received.

### 1) OPERATING RESULTS

Details of the results per department, classification and object of expenditure are included in appendices D and E. The applicable statistics are shown in appendix F. The overall operating results for the year ended 30 June 2008 are as follows :

INCOME	Actual 2006/07 R	Actual 2007/08 R	Variance Actual 06/07 VS Actual 07/08 %	Budget 2007/08 R	Variance Actual Budget %
Operating Income for the Year	10,958,985	9,737,125	-11.15%	11,459,200	-17.69%
	10,958,985	9,737,125	-11.15%	11,459,200	-17.69%
EXPENDITURE					
Operating Expenditure	11,075,125	14,705,051	32.78%	11,459,200	22.07%
(Deficit)/ Surplus at year end	(116,140)	(4,967,926)	4177.54%	-	22.07%

### 2.1) RATE AND GENERAL SERVICES

	Actual 2006/07 R	Actual 2007/08 R	Variance Actual Increase/ Decrease %	Budget 2007/08 R	Variance Actual Budget %
Income	10,958,985	9,737,125	-11.15%	11,459,200	17.69
Expenditure	11,075,125	14,705,051	32.78%	11,459,200	-22.07
(Deficit) / Surplus	(116,140)	(4,967,926)	4177.54%	-	-100.00
Surplus (Deficit) as % of Total Income	-1.06%	-51.02%	4714.30%	0.00%	

### 3) CAPITAL EXPENDITURE AND FINANCING

Capital assets purchased during the period amounted to R 258 449. These assets were funded by Operating Revenue.

#### 4) INVESTMENTS AND CASH

Investments amounted to R 4 302 927 at 30 June 2008, which earned interest amounting to R610 120.

The unfavourable bank balances at 30 June 2008 amounted to R 146 597. See note 11 & 22.

More information regarding investments is disclosed in notes 6 & 21 to the annual financial statements.

#### 5) FUNDS AND RESERVES

There were unspent grants at 30 June 2008. There were also new grants received during the financial period.

More information regarding funds and reserves is disclosed in note 2 and appendix A to the annual financial statements.

#### 6) POST-BALANCE SHEET EVENTS

The exemption of municipalities from complying with GAMA / GRAP statements has given the municipality an opportunity to properly prepare and implement the conversion with process starting as early as October 2008. No consultant has been appointed to date.

#### 7) GENERAL

As one of the roles of CFO as delegated by an Accounting Officer in terms of Section 81 of the MFM4 is to implement supply chain management system, I will reinforce the application of the system for maximum spending of unspent grants for the sake of improving financial management systems and control procedures of this municipality for better reporting at the end of 2008/09 financial year.

#### EXPRESSION OF APPRECIATION

I am grateful to the Mayor, Councilors, the Municipal Manager and Heads of Departments for their support during the past year.



**ACTING CHIEF FINANCIAL OFFICER**

**Mr. M. M. Mkhwanazi**

**Big 5 False Bay Municipality**

**DATE : 13 November 2008**

## 1. BASIS OF PRESENTATION

These Financial Statements have been prepared so as to conform to the standards laid down by the Institute of the Institute of Municipal Treasurers and Accountants in its Code of Practice (1997) and the Report 1.1 on the Standardization of the Financial Statement of Local Authorities (2nd Edition, as amended).

The Financial Statements are prepared on the historical cost basis, adjusted for capital expenditure as 1.2 more fully detailed in paragraph three below.

1.3 The Financial Statements are prepared on the accrual basis as stated :

- Income is accrued when collectable and measurable. Certain direct Income is accrued when received, such as traffic fines and certain licences.
- Expenditure is accrued in the year that it is incurred.

## 2. CONSOLIDATION

The balance sheet includes General Services, and the various funds, reserves and provisions.

## 3. FIXED ASSETS

3.1 Fixed Assets are stated :

- at historical cost, or
- at valuation (based on market price at date of acquisition), where assets have been acquired by grants & donations
- while in existence or fit for use.

### 3.2 Depreciation

Fixed Assets are not depreciated although the amount of "Loans Redeemed and Other Capital Receipts" in the notes to the balance sheet is tantamount to the provision for depreciation.

3.3 proceeds from the sale of vacant fixed property are credited to the Public Improvement Fund. Net All net proceeds from the sale of all other assets are credited to the Capital Development Fund.

3.4 Capital assets are financed from different sources, including external loans, operating income, endowments and internal advances. These loans and advances are repaid within the estimated life of the assets acquired from such loans or advances. Interest is charged to the service at the ruling interest rate applicable at the time that the advance is made.

3.5 Capital equipment acquired by way of finance lease is brought into accounting records as fixed assets which have long been financed by long-term liabilities

3.6 Assets are written off by the express and prior approval of the Council only.

#### **4. FUNDS AND RESERVES**

##### **4.1 Capital Development Fund**

The Natal Ordinance No. 25 of 1974, Section 103(9), requires a minimum contribution of 3 percent of the defined income of a municipality, in this case rounded off to the nearest ten Rand. The fund is used to finance capital expenditure, and the surplus funds are invested.

##### **4.2 Public Improvement Fund**

The Public Improvement Fund provides funding for future township development. All development costs as defined in section 103 (3) (d) of the Local Government Ordinance, Natal, No 25 of 1974, debited against the fund. All proceeds from the sale of developed land are credited as income to the fund. The Fund is used to finance capital expenditure, and the surplus funds are invested. There is, however, a proviso as to what type of asset may be funded from this fund.

##### **4.3 Working Capital**

Appropriations are made as and when required from operating expenditure to the working capital account.

##### **4.4 IDP Grant**

The Integrated Development Grant is conditional Grant received from the Department of Local Government and housing allocated to assist in the development of the municipal area by establishing the delivery of free basic services.

##### **4.5 Equitable Share**

The Equitable Share is funds received from the Department of Local Government allocated to assist in the funding of the operating expenditure and to subsidise a portion of the delivery of free basic services.

##### **4.6 Municipal Capacity Support Grant**

This grant is for the appointment of a Development Practitioner to assist with the promotion of the orderly and sustainable development, to process Land Development applications, to co-ordinate comment in respect of Permission to occupy and sandwinning applications and development Facilitation Act applications. Further, to provide advice, input and comment on legislation, policies and matters relating to land development, including

##### **4.7 Performance Management Grant**

This grant will be for the implementation of a Performance management System in the municipality.

##### **4.8 Finance Management Grant Received**

The grant is mostly for the training of the two Inform.

##### **4.9 Spatial Development Makassa**

This grant is for the spatial plans to be drawn for the rural area Makhasssa.

##### **4.10 Municipal Structure Integration Grant**

This grant is for service providers providing training to management and staff in Finance

##### **4.11 Municipal Property Rates**

This grant is for the implementation of the new property rates act.

##### **4.12 Land Use Management Grant**

This grant together with the GIS grant will be used for the establishment of a Geographic information system, including hardware/software acquisition, systems set-up, configuration, data acquisition,

##### **4.13 Municipal Assistance Grant**

This grant is for various projects required on municipality assistance.

**4.14 Project consolidate**

This grant is for the survey of the prospective dumping site.

**4.15 Grant Grader**

This grant was for the purpose of purchasing of a grader.

**4.16 GIS Grant**

see 4.13 above.

**4.17 Organisational structure and Human Resources Systems**

This grant is for the upgrade of the human resources systems and assistance with the OPMS.

**4.18 Public Participation Grant**

This grant is for the purpose of community participation and education of youth.

**5. INVESTMENTS**

Investments are shown at the lower of cost or market value if a permanent decline in the value occurred, and are invested in securities as prescribed by section 125 of the Local Authorities Ordinance, 1974 (Ordinance No. 25 of and section 10G(9) of the Local Government Transaction Act, 1993 (Act No. 209 of 1993)

**6. RETIREMENT BENEFITS**

All employees, with the exception of the contract employees, contribute to the Natal Joint Municipal Pension Funds. A full actuarial valuation is conducted by the funds actuaries every three years. These funds are presently in a stable financial position, an interim valuation was conducted as at 31 March 2004. The last full valuations was in March 2002. The retirement benefit plan is subject to the rules and regulations prescribed by the Local Government Superannuation Ordinance, 1973 (Ordinance No. 24 of 1973) and in accordance with the requirements of the Pensions Fund Act, 1956. Current contributions are charged against operating income on the basis of current service costs.

**7. PROMSIONS**

Certain provisions and reserves have been established where required, or considered necessary, and

**7.1 these include -**

Bad Debts Provision - provision for bad debts is made when the recovery of debts appears doubtful.  
Leave Pay Provision - provision for leave is the value of all leave due and payable to employees as at 30 June of each year.

**8. INCOME RECOGNITION**

8.1 Assessment rates are levied on land and buildings and are billed both monthly and annually.

8.2 Services are billed monthly. Any other income is by direct payment prior to service being rendered.

**9. SURPLUSES AND DEFICITS**

Any surpluses and deficits arising from the operation of the transport and other services are transferred to Rate and General services. The produce market & electricity, are closed accounts therefore any surplus or deficit is retained in that service for its own use.

**10. TREATMENT OF ADMINISTRATION AND OTHER OVERHEAD EXPENSES**

The cost of internal support services are transferred to the different services in accordance with the Institute Report on Accounting for Support Services (June 1986).

# **11. LEASED ASSETS**

Fixed assets held under finance leases are capitalised. Such are effectively amortised over the term of the lease agreement.

11.1 the lease agreement.  
effective interest rate method, which reflects the extent and cost of lease finance utilised in each accounting period.

11.2 accounting period.  
All other leases are treated as operating leases and the relevant rentals are charged in the operating account in a systematic manner relating to the period of use of the assets concerned.

# **12. DEFERRED CHARGES**

The balance outstanding of the costs incurred in raising loans on the capital market, are recovered from operating income over the periods of the various loans involved.

# **13. CONSOLIDATED LOAN FUND**

The capital resources of the Consolidated Loans Fund consist of both external and internal loans. Advances are made to borrowing departments at an interest rate equal to the cost of servicing the Fund's capital and are repaid over the useful life of the assets acquired.



## ACCOUNTING POLICIES

### 1. BASIS OF PRESENTATION

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Fund's capital and are repaid over the useful life of the assets acquired.

## BIG 5 FALSE BAY MUNICIPALITY

## BALANCE SHEET AS AT 30 JUNE 2008

	Note	2008 R	2007 R
<b>CAPITAL EMPLOYED</b>			
<b>FUNDS &amp; RESERVES</b>		11,476,576	6,095,946
Statutory Funds	1	4,112,515	4,112,515
Reserves	2	7,364,064	1,983,433
Trust Funds	3	215,000	215,000
<b>ACCUMULATED DEFICIT/ APPROPRIATIONS</b>	16	-2,010,036	-3,127,867
<b>LONG TERM LIABILITIES</b>	4	-2	7,983,011
<b>CONSUMER DEPOSITS; SERVICES</b>		0	0
		<u>9,681,545</u>	<u>11,066,092</u>
<b>EMPLOYMENT OF CAPITAL</b>			
<b>FIXED ASSETS</b>	5	3,896,813	3,741,766
<b>LONG TERM DEBTORS</b>	7	23,871	0
<b>DEFERRED CHARGES</b>		0	0
<b>NET CURRENT ASSETS</b>		5,760,860	7,324,327
Current Assets		7,357,478	11,690,766
Debtors	8	3,050,071	3,604,132
Bank & Cash	11	4,484	255
Short Term Portion of Long Term Debtors	7	0	23,871
Short Term Investments	6	4,302,922	8,062,498
Current Liabilities		1,596,617	4,366,429
Provisions	9	163,999	161,207
Main Bank Account	11	146,597	60,620
Creditors	10	1,286,021	3,688,126
Short Term Portion of Long Term Liabilities	4	0	476,477
		<u>9,681,545</u>	<u>11,066,092</u>

## BIG 5 FALSE BAY MUNICIPALITY

## INCOME STATEMENT FOR THE YEAR ENDED 30 JUNE 2008

2007 Actual Income	2007 Actual Expenditure	2007 Surplus/ (Deficit)		2008 Actual Income	2008 Actual Expenditure	2008 Surplus/ (Deficit)	Budget Surplus/ (Deficit)
R	R	R		R	R	R	
10,958,984	11,075,125	-116141	RATE AND GENERAL SERVICES	9,740,880	14,708,806	(4,967,926)	3,423,496
10,654,999	10,519,229	135770	Community Services	9,392,881	13,822,238	(4,429,359)	3,811,859
5,847	169,987	-164140	Subsidised Services	4,496	300,426	(295,930)	-631,000
298,138	385,909	-87771	Economic Services	343,503	586,141	(242,638)	242,638
0	0	0	HOUSING SERVICES	0	0	-	0
0	0	0	TRADING SERVICES	0	0	-	0
<u>10,958,984</u>	<u>11,075,125</u>	<u>-116141</u>	<b>TOTAL</b>	<u>9,740,880</u>	<u>14,708,806</u>	<u>(4,967,926)</u>	<u>3,423,496</u>
		(627,511)	Appropriations for the year (refer to note 17)			6,085,757	
		-743652	Net Surplus / (Deficit) for the year			1,117,830	
		(2,384,216)	Retained Income at the beginning of the year			(3,127,868)	
		<u>-3,127,868.00</u>	<b>ACCUMULATED DEFICIT/APPROPRIATIONS AS AT THE END OF THE YEAR</b>			<u>(2,010,038)</u>	

# **BIG 5 FALSE BAY MUNICIPALITY**

## **CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2008**

	NOTE	2008	2007
		R	R
<b>CASH RETAINED FROM OPERATING ACTIVITIES:</b>		<b>(4,852,131)</b>	<b>758,614</b>
Cash generated by /(utilised in) operations	17	3,118,423	(357,828)
Investment Income		610,120	843,235
(Increase) / Decrease in working capital	18	(3,200,042)	1,560,772
		528,500	1,846,179
less: External Interest paid		-	-
Cash available from operations		528,500	1,846,179
Cash contributions from the Public and State		(5,380,631)	(1,087,565)
Net proceeds on disposal of fixed assets		-	-
<b>CASH UTILISED IN INVESTING ACTIVITIES</b>			
Investment in Fixed Assets	5	(258,449)	(547,030)
<b>NET CASH FLOW</b>		<b>(4,595,681)</b>	<b>211,584</b>
<b>CASH EFFECTS OF FINANCING ACTIVITIES :</b>			
(Decrease)/ Increase in long term borrowings	19	8,358,486	101,625
Decrease/(Increase) in investments	21	(3,758,576)	(341,157)
Increase/( Decrease) in Cash and Cash equivalent	22	(4,229)	27,948
<b>Net cash utilised / (generated)</b>		<b>4,595,681</b>	<b>(211,584)</b>

# BIG 5 FALSE BAY MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008

2008  
R

2007  
R

### 1. Statutory Funds

Public Improvement Fund  
Capital Development Fund  
Housing Development Account

2,690,681  
1,421,634

2,690,681  
1,421,634

(Refer to appendix A for more details)

Interest earned on investments are apportioned to the CDF, PF and working capital reserve. The apportionment is based on the opening balances of accumulated funds and reserves including grants unspent.

4,112,515

4,112,515

### 2. Reserves

IDP Grant  
Equitable Share  
Panel Support  
Municipal Capacity Support Grant  
Performance Management Grant  
Land Use Management Systems  
Library Grants  
GIS Grant  
Working Capital Reserve  
MAP  
SDL  
Develop Admin Capacity  
Finance management grant  
Local Aids Council  
Special Development Matkasa  
Community Dev Worker  
MSIG  
Mun Vail/property rates  
MFMA  
Project Consolidate  
Municipal capacity grant  
GIS dev.support grant  
Grants Interest  
Grants VAT  
Grant Water Ret/Sewer Ponds  
PR Con.Dig Str & HR Systems  
Proj. cons - Public participation  
Good Gov. Dig Structure & HR Systems

267,234  
0  
0  
0  
209,648  
39,489  
0  
98,151  
480,601  
616,513  
0  
100,000  
755,141  
0  
14,667

146,272  
0  
0  
0  
209,648  
39,489  
0  
98,151  
480,601  
882,471  
0  
100,000  
408,597  
0  
48,000

1,486,153  
251,110  
100,000  
4,210  
301,162  
200,000  
1,253,355  
849,597  
499,83  
136,995  
172,687  
46,851

984,155  
251,110  
100,000  
80,250  
301,162  
200,000  
643,235  
859,597  
489,83  
137,000  
175,000  
101,675

(Refer to appendix A for more details)

Unconditional grants (Itemised figures) disclosed under Liabilities Reserves

7,364,064  
0  
7,364,064

6,247,914  
4,284,481  
1,963,433

### 3 Trust Funds

Estate tale: P Mtshali

215,000

215,000

### 4 LONG TERM LIABILITIES

Annuity Loans

0

4,095,007

Add: Interest

Unconditional Grants see at 30/06/2007 (refer to note 2)

0

4,264,461

Less:Short Term portion of of long term liability transferred to current liabilities

0

8,359,468

Long Term Liabilities

2

476,477

(Refer to appendix A for unconditional grants which form part of balance)  
(Refer to appendix B for more details on long term liabilities)

-2

7,893,011

### ANNUITY LOANS

These loans are unsecured and are held with Umsekele Municipal Support Services. No payments have been made on this loan since the take on of this balance in the Big 5 False Bay Financials. Annuity loans bear interest at rates between 10% and 15% per annum-however no provision in 2007 has been made for interest. correspondences to Provincial Government requests the writing off of the loans benefited from Umsekele - as the loans have no supporting documentation. No obligation was undertaken by the Big 5 False bay municipality for the redemption of these loans.



# **BIG 5 FALSE BAY MUNICIPALITY**

## **NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008 (continued)**

	2008	2007
	R	R

### **5 FIXED ASSETS**

Fixed assets at the beginning of the year	22 283,165	17 229,582
Capital expenditure during the year	256,449	5 063,583
Other additional assets not accounted for in prior years	566,000	0
less : Assets written off, transferred or		
Transfer to Umkhanyakude portion to umkhanyakude loan a/c	3 220,312	
Total fixed assets	19,885,302	22,283,165
less : Loans redeemed and other capital receipts	15,988,488	18,541,389
Net fixed assets	3,896,813	3,741,766
(Refer to appendix C for more details)		

### **6 SHORT TERM INVESTMENTS**

Unlisted	0	0
Call Accounts	4,302,922	8,062,486
	4,302,922	8,062,486

### **Management's valuation of unlisted investments**

#### **Average rate of return**

Funds are invested according to section 10(2) (a) of the Local Government Transitional Act, second amendments act, 1986 (Act 97 of 1986)

No investments were written off during the year.

### **7 LONG TERM DEBTORS**

Staff Car loans at the beginning of the year	23,871	26,826
Add: Interest capitalised for the year		2,043
Adjustment - prior period	23,871	28,871
Add: New loans		5,000
Less Paid during the year	23,871	23,871
Less: Short term portion of the long-term debtors transferred to current assets	23,871	23,871
		0

### **8 DEBTORS**

Debtors	2,712,640	1,863,716
Umkhanyakude	0	361,040
Phumlanani	0	0
Deposits	0	31,617
Sundry Debtors	13,172	0
Accrued interest	0	67,388
Umsekele Capital underfunding	0	697,891
DPLG	0	0
Other	0	0
Hlabisa	0	0
Umkhanyakude	0	0
Mongoma	0	0
Tf of Pmts from previous years	0	0
Prior year adjustments	1,023,386	1,433,534
Vat input	0	762,223
vat output	0	0
vat paid over	0	23,871
Staff loan B Mkhongo	0	8,692
Payroll	89	0
Cashiers Float/underbanking/overbanking	3,749,307	5,036,973
Add: Debtore Prepayments	107,541	1,411,970
Less: Provisions for doubtful debts	806,777	3,628,003
	3,050,071	

Debtors of R107,542 are prepayments and disclosed herewith as such.

The amounts receivable in respect of the Phumlanani Housing Project are still to be finalised and reconciled with the department of Housing.

In the current year debtors to the value of R1 686 829 were written off.

# BIG 5 FALSE BAY MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008 (continued)

## 9 PROVISIONS

Leave Gratuities	163,888	161,207
Bad Debts	806,777	1,411,970
	970,776	1,573,178
	806,777	1,411,970
Less: Provisions for doubtful debts transferred to debtors	163,888	161,208

## 10 CREDITORS

Other trade Creditors etc.	1,176,460	892,524
Unsettled Municipal Support Unallocated receipts	0	1,615,318
Housing subsidies received in advance	0	1,160,283
Add: Debtors Prepayments	107,541	
	1,286,021	3,668,125

Debtors of R107,542 are prepayments and disclosed herewith as such. The housing subsidies in advance is still a matter pending with the department of Housing and the final reconciliation of the Phumani Housing Project.

The leave provision is based on number of accrued leave days at 30 June 2008

11 Bank and Cash	-146,597	-60,620
Main Bank account	4,484	255
Bank and Cash	-142,113	-60,365

## 12 Assessment rates

Site valuations as at 1 July 1997. Figures below includes rebates except other rebates of R46,915.20 not classified as per the categories below:

Residential	673,227	601,366
Commercial	847,957	733,824
Government	169,778	156,921
Municipal	0	0
Other	0	0
Municipal & Other	2,207	0
	1,693,169	1,492,113
Land	7,153,600	
Buildings	40,102,300	

Valuation on land and buildings are performed every 3 years and the last general valuation came into effect in 1 July 2005. The rate was 23.61c per rand on land and 1,5c rand on buildings. Rebates granted were 20% on Government 40% on domestic and 50% on agricultural properties. Non-profit organizations e.g. churches are exempt from rates.

15

# BIG 6 FALSE BAY MUNICIPALITY

## NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008 (Continued)

2008 2007  
R R

### 13 COUNCILOR'S REMUNERATION

Mayors allowances	214,909	202,481
Deputy Mayor's allowances	0	0
Councillors	479,974	601,923
Executive Committee	0	0
Standing Committee	0	0
Local Municipality Attendance	0	0
Speaker Allowance Medical Aid Contributions	0	0
Pension Fund contributions	21,231	0
Use of personal facilities	0	4680
Other	283,150	125889
	<u>999,284</u>	<u>934,973</u>

The salaries paid to councilors are in terms of section 219 of the Constitution.

### 14 AUDITORS' REMUNERATION

Audit fees	79,951	172,008
Balance Prior year		
Prior year	<u>78,951</u>	<u>172,008</u>

### 15 FINANCE TRANSACTIONS

Total external interest earned or paid:		
Interest earned	637,075	678,863
Interest paid	0	0
Capital charges debited to operating account:		
Interest : External	0	0
: Internal	0	0
Redemption : External	0	0
: Internal	0	0
	<u>0</u>	<u>0</u>

### 16 ACCUMULATED DEFICIT /APPROPRIATIONS

Appropriation account		
Accumulated surplus at the beginning of the year	(3,127,867)	(2,384,216)
Operating surplus / (deficit) for the year	(4,967,926)	(116,140)
Appropriations for the year:	<u>6,085,757</u>	<u>-627,511</u>
Prior year adjustment	<u>6,085,757</u>	<u>-627,511</u>
Prior year transfer to Umkhanya	0	0
Accumulated deficit/ Appropriations at the end of the year	-2,010,035	-3,127,867
Operating account		
Capital Expenditure	256,449	547,030
Contributions to:	<u>2,162,775</u>	<u>513,796</u>
Capital development fund	0	328,081
Reserves	1,409,439	0
Doubtful debts	561,436	0
Leave pay	191,901	186,715
Working capital reserve	0	0
Accumulated surplus / (deficit) at the end of the year	<u>2,419,225</u>	<u>1,060,826</u>

# BIG 5 FALSE BAY MUNICIPALITY

NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008 (Continued)

	2008	2007
	R	R
<b>17 CASH GENERATED BY/(UTILIZED IN) OPERATIONS</b>		
Surplus/Deficit for the year	(4,967,926)	(116,140)
Adjustments in respect of:		
Appropriation for the year	6,149,885	(627,511)
Appropriations charged against income:	3,028,982	1,080,826
Capital Development Fund	-	328,081
Working Capital Reserve	-	-
Reserves	1,409,439	-
Provisions	797,094	185,716
Capital Outlay	822,449	547,030
Capital Charges	-	-
Interest paid:	-	-
Internal loans	-	-
On external loans	-	-
Redemption	-	-
On internal loans	4,096,005	-
On external loans	(4,095,005)	-
Investment income charged to operating account	-	(675,003)
Non - operating income	-	(513,796)
Grants	-	(161,207)
Credited to Fund, Provisions and Reserves	-	-
Non-operating expenditure:	(1,092,519)	-
Debited to Funds	(903,409)	-
Debited to provisions and Reserves	(189,109)	-
Amount to Cashflow Statement	3,118,423	(357,629)
<b>18 DECREASE / (INCREASE) IN WORKING CAPITAL</b>		
(Increase) / decrease in deposits	-	1,170,606
(Increase) / decrease in debtors	(708,089)	(16,721)
(Increase) / decrease in long-term debtors	(23,871)	406,886
Decrease / (increase) in Creditors	(2,382,104)	-
Increase / (decrease) in Overdrafts	(85,978)	-
	<u>(3,200,042)</u>	<u>1,560,771</u>
<b>19 (DECREASE) / INCREASE IN LONG TERM LIABILITIES (EXTERNAL)</b>		
Loans Raised(Long term portion & short term portion)	8,359,488	101,625
Loans Repaid	(2)	-
Amount to Cashflow Statement	<u>8,359,486</u>	<u>101,625</u>
Cash contributions from the public and the state	(5,380,631)	322,560
Increase in reserves	(5,380,631)	322,560
Contributions to working capital		
<b>20 (DECREASE) INCREASE IN SHORT TERM BORROWINGS COMPRISE</b>		
Loan raised	-	-
Loans repaid	-	-
Amount to Cashflow Statement	<u>-</u>	<u>-</u>

# **BIG 5 FALSE BAY MUNICIPALITY**

## **NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008 (Continued)**

	2008 R	2007 R
<b>21 INCREASE / (DECREASE) IN CASH INVESTMENT COMPRISE:</b>		
Investment Realized	8,062,498	4,777,712
Investment made	4,302,922	4,435,555
	<u>3,759,576</u>	<u>341,157</u>
<b>22 INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		
Balance at beginning of year	255	26,203
Balance at the end of the year	4,484	255
	<u>-4,229</u>	<u>27,948</u>
<b>23 CONTINGENT LIABILITIES AND CONTRACTUAL OBLIGATIONS</b>		
There are no contingent liabilities as at 30 June 2008	-	-
<b>24 CAPITAL COMMITMENTS</b>		
Commitments in respect of capital expenditure	-	-
- Approved and contracted for	-	-
- Approved but not yet contracted for	-	-
This expenditure will be financed from:		
- Internal sources	-	-
- External sources	-	-
- Other sources: Subsidies & donations	-	-
Provincial - , Central government & District Council	-	-
<b>25 RETIREMENT BENEFITS</b>		
The personnel are members of the Natal Joint Municipal Pension Fund. The last actuarial valuation was on 31 March 2002. An interim valuation is carried out at the end of each year, the last one being 31 March 2004		
<b>26 CONSOLIDATED CAPITAL DEVELOPMENT FUND</b>		
Outstanding advances to borrowing services		
Accumulated Funds	1,421,634	1,421,634
Less: Internal Investments	(1,421,634)	(1,421,634)
(See Appendix A and B for more detail)	-	-
<b>27 PUBLIC IMPROVEMENT FUND</b>		
Accumulated Funds	2,690,881	2,690,881
Loans outstanding to Umsekele Municipal Support Services	-	464,027
Less: External Investments	-	1,923,072
Less: Value of assets	-	1,231,836
Land	-	430,966
Roads & Streets	-	709,731
Electrical Infrastructure	-	91,189
Outstanding advances to borrowing services refer to appendix A & B for more details		

# **BIG 6 FALSE BAY MUNICIPALITY**

## **NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2008 (Continued)**

### **28 MANAGERS SALARIES & ALLOWANCES**

	2008	2007
	R	R
<b>Municipal manager</b>	<b>494,069</b>	<b>454,030</b>
Gross	423,069	394,030
Travel Allowances	60,000	60,000
Cell Allowance	11,000	-
Leave	-	-
Bonus	-	-
<b>Chief Financial Officer</b>	<b>463,837</b>	<b>420,581</b>
Gross	337,837	330,581
Travel Allowances	120,000	90,000
Cell Allowance	6,000	-
Leave	-	-
Bonus	-	-
<b>Corporate Manager</b>	<b>460,704</b>	<b>383,616</b>
Gross	310,704	239,616
Travel Allowances	144,000	144,000
Cell Allowance	6,000	-
Leave	-	-
Bonus	-	-
<b>IDP manager</b>	<b>457,508</b>	<b>300,000</b>
Gross	391,268	240,000
Travel Allowances	60,240	60,000
Cell Allowance	6,000	-
Leave	-	-
Bonus	-	-

The salaries and allowances of section 57 are paid in accordance with the municipal budget approved by council.

### **29 BANK, CASH AND OVERDRAFT BALANCES**

The Municipality has the following bank accounts:

<b>Current account (Primary bank account)</b>		
<b>First National Bank - Hillside Branch</b>		
<b>Account number - 6202 2340 385</b>		
Cash book balance at beginning of year (overdrawn)	0	0
Cash book balance at end of year (overdrawn)	0	0
Bank statement balance at beginning of year	0	0
Bank statement balance at end of year	0	0

## BIG 5 FALSE BAY MUNICIPALITY

### NOTES TO THE FINANCIAL STATEMENTS AS AT 30 JUNE 2006 (Continued)

	2006	2007
	R	R

#### 30 Prior Year Adjustments

Long term liabilities written off	-3,618,530.25	
Provisions written off	-476,474.75	
Writing of Umsekele Debtor	-1,615,318.00	
Writing of Subsidies received in advance	-1,160,283.00	
Correction of 2003/4 & 2006/7 balances	18,419.88	
Correction of 2003/4 & 2006/7 balances	12,478.83	
Ziningi Properties written off	1,727.99	
Reversing of Vat provisions	752,222.62	

	-6,085,756.68	0
--	---------------	---

#### 31 Municipal Entities under sole control of municipality

There are no municipality under the sole control of the municipality.

#### 32 Summary of investments in municipal entities

There are no municipal entities therefore there were no investments held for municipal entities.

#### 33 Party Related Transactions

a contract of hosting the web site was awarded to a close family member of the CFO at a cost of R1,500 per month. Contract extends above a year.

APPENDIX A

BIG 5 FALSE BAY MUNICIPALITY

STATUTORY FUNDS, RESERVES AND PROVISIONS FOR THE YEAR ENDED 30 JUNE 2008

	Balance at 2007/07/01	Contributions during the year	Interest on Investment	Tfrs from other grants	Expenditure during the year	Prior year adjustment valuation	Tfr to Revenue	Balance at 2008/06/30
R	R	R	R	R	R			R
<b>ACCUMULATED FUNDS</b>								
Public Improvement Fund	2 690 881	0	0	0	0			2 690 881
Capital Development Fund	1 421 634	0	0	0	0			1 421 634
	<u>4 112 515 0</u>	<u>0 0</u>	<u>0 0</u>	<u>0 0</u>	<u>0 0</u>			<u>4 112 515</u>
<b>RESERVES</b>								
Working Capital Reserve	480 801	0	0	0	0			480 801
Asset Financing Fund	0	0	0	0	0			0
Equitable Share Grant received	0	0	0	0	0			0
Establishment Grant	0	0 0	0	0	0			0
Transitional Grant	0	0	0	0	0			0
Free Basic Services	0	0	0	0	0			0
IDP grant	148 272	175 439	0	0	54 477			267 234
Capacity Support Grant	0	0	0	0	0			0
Tax Base Relief	0	0	0	0	0			0
DELGSA Administration Grant	0	0	0	0	0			0
Municipal capacity 989 Grant	301 162	0	0	0	0			301 162
Participative Management grant	208 648	0	0	0	0			208 648
Land use management grant	39 489	0	0	0	0			39 489
Library grant	0	0	0	0	0			0
GIS Grant	88 161	0	0	0	0			88 161
Person Fund	0	0	0	0	0			0
Finance Management Grant	409 597	500 000	0	0	154 456			755 141
Dev Admin Cap	100 000	0	0	0	0			100 000
MAP	882 471	0	0	0	285 863			616 608
Environmental Monitoring	0	0	0	0	0			0
Local Alder Council	0	0	0	0	0			0
Social dev makana	48 000	0	0	0	33 333			14 667
Community Dev Worker	0	0	0	0	0			0
ASIC	884 155	734 000	0	0	252 002			1 406 153
Main val not/property rates	251 110	0	0	0	0			251 110
MAPHA	100 000	0	0	0	0			100 000
Project Consolidate	80 250	0	0	0	76 040			4 210
GIS DEV/UP/CRT	200 000	0	0	0	0			200 000
reases on investments other	643 235	0	0	0	0			1 253 365
Val on Grants relative	838 597	0	0	0	10 000			848 597
Grant Proj consolidate - sewer ponds	500	0	0	0	0			500
Grant Order	175 000	0	0	0	2 313			1 172 687
PR Cons Ong Staff systems	137 000	0	0	0	0			137 000
PR Cons Ong Staff systems	101 676	0	0	0	54 825			46 850
	<u>8 247 573</u>	<u>1 406 439 0</u>	<u>610 120 0</u>	<u>0 0</u>	<u>903 409 0</u>			<u>7 384 063</u>
<b>TRUST FUNDS</b>								
Esauw Lm: P Michael	215 000	0	0	0	0			215 000
	<u>215 000 0</u>	<u>0 0</u>	<u>0 0</u>	<u>0 0</u>	<u>0 0</u>			<u>215 000</u>
<b>PROVISIONS</b>								
Leave	161 207	191 501	0	0	189 109			163 598
	<u>161 207 0</u>	<u>191 501 0</u>	<u>0 0</u>	<u>0 0</u>	<u>189 109 0</u>			<u>163 598</u>
<b>TOTAL</b>	<u>10 736 635</u>	<u>1 601 340</u>	<u>610 120</u>	<u>0</u>	<u>1 092 518</u>			<u>11 856 677</u>



**APPENDIX B**

**BIG 5 FALSE BAY MUNICIPALITY**

**EXTERNAL LOANS AND INTERNAL ADVANCES FOR THE YEAR ENDED 30 JUNE 2008**

	EXTERNAL LOANS	% age	Period of loan	Repayment Date	Balance 01 July 2007	Received during the year	Redeemed written off during the year	Balance 30 June 2008
SR83	Sewerage Works	10	15	2,003	0	0	0	0
SR114	Sealing Beyton road	10	15	2,004	14,086	0	14,086	0
SR115	Taxi Rank Improvement	10	20	2,009	22,927	0	22,927	0
SR135	Sewerage works	10	15	2,004	0	0	0	0
SR 156	Township roads	10	20	2,010	19,086	0	19,086	0
SR 157	Sewerage Works	10	15	2,005	0	0	0	0
SR 209	Myala Street	10	20	2,011	49,542	0	49,542	0
SR 331	Township roads	10			0	0	0	0
SR 366	Township roads	10			0	0	0	0
SR 361	Library	10	15	2,010	299,833	0	299,833	0
SR 382	Township roads	10	7		152	0	152	0
SR 383	Parking area	10	10	2,005	4,700	0	4,700	0
SR 441	Roads	10	10	2,005	790,670	0	790,670	0
SR 446	Koedoe Street	10	10	2,009	41,386	0	41,386	0
SR 447	Myala/St Lucia Street	10	10	2,009	760,965	0	760,965	0
SR 448	Service roads	10	10	2,004	213,972	0	213,972	0
SR 449	Cemetery Wall	10	5	2,010	7,518	0	7,518	0
SR 455	Myala/St Lucia Street	13	10	2,010	239,276	0	239,276	0
SR 456	Sewerage Works	13	10	2,010	0	0	0	0
SR 478	Roads: Park Ross	13	8	2,009	1,116,905	0	1,116,905	0
SR 479	Solid Waste	10	10	2,011	50,946	0	50,946	0
SR480	Outfall Sewer	10	10	2,011	0	0	0	0
SR 481	Sewer extension	10	10	2,011	0	0	0	0
SR 210	Water Supply	10	15	2,006	0	0	0	0
SR 286	Water Works	10	15	2,004	0	0	0	0
SR 450	Reservoir	10	5	2,004	0	0	0	0
SR 451	Prepaid Meters	10	10	2,009	0	0	0	0
SR 463	Land Ext 4	10	10	2,007	464,027	0	464,027	0
					<u>4,095,005</u>	<u>0</u>	<u>4,095,005</u>	<u>0</u>
INTERNAL ADVANCES TO BORROWING SERVICES								
					Balance 01 July 2007	Received during the year	Redeemed written off during the year	Balance 30 June 2008
					<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>

# APPENDIX C

## BIG 5 FALSE BAY MUNICIPALITY

ANALYSIS OF FIXED ASSETS FOR THE YEAR ENDED 30 JUNE 2008

Expenditure 2006/2007	Service	Budgeted Expenditure 2007/2008	Balance at 2007/07/01	Expenditure 2007/2008	Written off, transferred, redeemed or disposed of during the year	Balance at 2008/06/30
R		R	R	R	R	R
<b>5,053,582 RATES AND GENERAL SERVICES</b>						
0		0	21,051,328	822,449	3,220,312	18,855,465
5,053,582	Community services	0	11,384,819	822,449	3,220,312	8,986,956
328,832	Council	0	328,832	586,000	0	894,832
0	Management	0	745,184	256,449	0	1,001,633
87,140	Finance	0	485,972	0	0	485,972
0	Corporate	0	248,310	0	0	248,310
4,637,610	Technical	0	9,596,521	0	3,220,312	6,376,209
0		0	0	0	0	0
0	Subsidised Services	0	9,686,509	0	0	9,686,509
0	Health	0	0	0	0	0
0	Library	0	306,054	0	0	306,054
0	Cemetery	0	8,380,455	0	0	8,380,455
0	Parks & Recreation	0	0	0	0	0
0		0	0	0	0	0
0	Economic Services	0	0	0	0	0
0	Refuse removal	0	0	0	0	0
0	Sewerage	0	0	0	0	0
0		0	0	0	0	0
0	HOUSING	0	0	0	0	0
0	Housing	0	0	0	0	0
0		0	0	0	0	0
0	TRADING SERVICES	0	0	0	0	0
0	Water	0	0	0	0	0
0	Electricity	0	0	0	0	0
0		0	0	0	0	0
0	PUBLIC IMPROVEMENT FUND	0	1,231,836	0	0	1,231,836
5,053,582	TOTAL FIXED ASSETS	0	22,283,164	822,449	3,220,312	18,855,301
<b>less: LOANS REDEEMED AND OTHER</b>						
5,053,582	CAPITAL RECEIPTS	18,541,388	887,401	3,220,312	0	15,986,488
0	Loans redeemed and advances paid	485,859	0	0	0	485,859
547,030	Contributions from operating income	932,867	101,401	0	0	1,034,268
4,506,552	Grants and Subsidies	12,347,197	586,000	3,220,312	0	8,982,885
0	Disposal of assets	3,700	0	0	0	3,700
0	Asset revaluation	4,761,776	0	0	0	4,761,776
0	NET FIXED ASSETS	3,781,765	155,048	0	0	3,936,813

# APPENDIX D

## BIG 5 FALSE BAY MUNICIPALITY

### ANALYSIS OF OPERATING INCOME AND EXPENDITURE FOR THE YEAR ENDED 30 JUNE 2008

Actual 2007 R	Actual 2008 R	Budget 2008 R
<b>10,958,985</b>	<b>9,737,125</b>	<b>11,459,200</b>
<b>INCOME</b>		
1,492,112	2,643,054	1,319,900
8,779,628	6,051,037	4,817,000
0	0	0
389,107	699,531	4,990,500
0	0	0
298,138	343,503	332,800
<b>11,075,125</b>	<b>14,705,051</b>	<b>11,459,200</b>
<b>EXPENDITURE</b>		
5,060,030	5,510,939	5,173,900
4,795,193	7,319,547	4,617,100
159,076	189,781	671,000
0	0	462,800
547,030	102,801	320,000
513,796	1,581,963	214,800
0	0	0
0	0	0
<b>(116,140)</b>	<b>(4,967,926)</b>	<b>-</b>
<b>Surplus/(Deficit)</b>		

# AUDIT REPORT (FINAL DRAFT)

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL  
LEGISLATURE AND THE COUNCIL ON THE FINANCIAL STATEMENTS AND  
PERFORMANCE INFORMATION OF BIG FIVE FALSE BAY MUNICIPALITY FOR THE  
YEAR ENDED 30 JUNE 2009**

**REPORT ON THE FINANCIAL STATEMENTS**

**Introduction**

1. I have audited the accompanying financial statements of the Big Five False Bay Municipality which comprise the balance sheet as at 30 June 2009, the income statement and the cash flow statement for the year then ended, a summary of significant accounting policies and other explanatory notes as set out on pages [xx] to [xx].

**The accounting officer's responsibility for the financial statements**

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMFA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

**The Auditor-General's responsibility**

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996 read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMFA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing and General Notice 616 of 2008, issued in Government Gazette No. 31057 of 15 May 2008. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance on whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

**Basis for qualified opinion**

## Property, plant and equipment

7. The opening balance of property, plant and equipment includes an amount of R3 896 813 that should have been written off in the prior year as follows:

• Loans redeemed and other capital receipts	R3 741 765
• Prior year contribution from operating income	R 155 048

The above was corrected in the current year, resulting in the fixed asset opening balance being overstated and the accumulated deficit opening balance being understated.

The fixed asset register was last updated in the 2005-06 financial year. I reconciled the fixed asset register and the asset additions in the general ledger from 2005-06 to 2008-09. An unexplained net difference of R241 543 was calculated, being the difference between the asset register and the general ledger at 30 June 2009.

When comparing the balances of the ledger entries of assets totalling R23 739 433 to the asset register, assets totalling R3 388 419 as set out below could not be verified or traced to the asset register. The municipality's records did not permit the application of adequate alternative audit procedures regarding these assets. Consequently, I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence, valuation, completeness and ownership of the following classes of assets:

• Furniture, office equipment, other machinery and equipment	R1 396 822
• Motorways	R 709 731
• Tractors	R 174 375
• Land and buildings	<u>R1 107 491</u>
• TOTAL	<u>R3 388 419</u>

## Creditors

8. A difference of R316 193 was identified between the creditors age analysis and the control account in the general ledger, whereby the general ledger balance of R1 163 670 exceeded the creditors age analysis balance of R847 427. This difference could not be explained by management or supported by documentation. Furthermore, creditors to the value of R299 247 could not be verified against documentation received. I did not obtain sufficient appropriate audit evidence to satisfy myself as to the existence and valuation of creditors totalling R615 440.

## Qualified opinion

9. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements of the Big Five False Bay Municipality have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 and in the manner required by the MFMA.

## **Emphasis of matters**

I draw attention to the following matters:

### **Basis of accounting**

10. The municipality's policy is to prepare financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1.

### **Going concern**

11. While the municipality has prepared financial statements on a going concern basis, there are indicators that its financial sustainability is under threat. The municipality has incurred a loss of R6 127 928 in the current year and the accumulated deficit was R8 434 147. Furthermore, it was noted that concomitant assets (investments, cash and bank) were insufficient to support the existence of funds and reserves with a shortfall of R4 633 929. Salaries of R6 723 969 (councillors included) and general operating expenses of R10 228 727 represented 122% of income totalling R13 937 058 (excluding capital grants). The extent to which effective service delivery can be achieved is questionable.

### **Unauthorised expenditure**

12. Unauthorised expenditure of R7 361 306 was incurred as a result of the overspending of the amount appropriated for certain components of expenditure votes in the budget for the year under review. The unauthorised expenditure was disclosed in note 32 to the financial statements.

### **Other matters**

I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

#### **Material inconsistencies in other information included in the annual report**

13. I have not obtained the other information included in the annual report and have not been able to identify any material inconsistencies with the financial statements.

#### **Unaudited supplementary schedules**

14. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

#### **Non-compliance with applicable legislation**

#### **Municipal Finance Management Act**

15. Section 65(2)(e) of the MFMA states that all money owing by the municipality should be paid within 30 days of receiving the relevant invoice or statement, unless prescribed otherwise for certain categories of expenditure. While testing payments it was noted that some creditors were paid after 30 days.

#### Governance framework

16. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the internal control deficiencies and key governance responsibilities addressed below:

#### Internal control deficiencies

17. Section 62(1)(c)(i) of the MFMA states that the accounting officer must ensure that the municipality has and maintains effective, efficient and transparent systems of financial and risk management and internal control. The table below depicts the root causes that gave rise to the deficiencies in the system of internal control, which led to the qualified opinion. The root causes are categorised according to the five components of an effective system of internal control (the number listed per component can be followed with the legend below the table.) In some instances deficiencies exist in more than one internal control component.

Par. no.	Basis for qualified opinion	CE	RA	CA	IC	M
7	Property, plant and equipment	6	2	5		3
8	Creditors	6	2	5		3

18. Due to deficiencies in internal controls with regard to fixed assets, I was unable to verify furniture, office equipment, other machinery and equipment. The fixed asset register was not updated. Furthermore, I was unable to physically verify assets to confirm the completeness, existence, valuation and ownership of assets. Control activities were not selected and developed to mitigate risks to fixed asset reporting. Internal control deficiencies with regard to creditors are not identified and communicated in a timely manner to allow for corrective action to be taken.

The organisational structure does not address areas of responsibility and lines of reporting to support effective control over financial reporting.

1



Management and staff are not assigned appropriate levels of authority and responsibility to facilitate control over financial reporting.	2
Human resource policies do not facilitate effective recruitment and training, disciplining and supervision of personnel.	3
Integrity and ethical values have not been developed and are not understood to set the standard for financial reporting.	4
The accounting officer/accounting authority does not exercise oversight responsibility over financial reporting and internal control.	5
Management's philosophy and operating style do not promote effective control over financial reporting.	6
The entity does not have individuals competent in financial reporting and related matters.	7
Management has not specified financial reporting objectives to enable the identification of risks to reliable financial reporting.	1
The entity does not identify risks to the achievement of financial reporting objectives.	2
The entity does not analyse the likelihood and impact of the risks identified.	3
The entity does not determine a risk strategy/action plan to manage identified risks.	4
The potential for material misstatement due to fraud is not considered.	5
There is inadequate segregation of duties to prevent fraudulent data and asset misappropriation.	1
General information technology controls have not been designed to maintain the integrity of the information system and the security of the data.	2
Manual or automated controls are not designed to ensure that the transactions have occurred, are authorised, and are completely and accurately processed.	3
Actions are not taken to address risks to the achievement of financial reporting objectives.	4
Control activities are not selected and developed to mitigate risks over financial reporting.	5
Policies and procedures related to financial reporting are not established and communicated.	6
Realistic targets are not set for financial performance measures, which are in turn not	7

linked to an effective reward system.	
Pertinent information is not identified and captured in a form and time frame to support financial reporting.	1
Information required to implement internal control is not available to personnel to enable internal control responsibilities.	2
Communications do not enable and support the understanding and execution of internal control processes and responsibilities by personnel.	3
Ongoing monitoring and supervision are not undertaken to enable an assessment of the effectiveness of internal control over financial reporting.	1
Neither reviews by internal audit or the audit committee nor self assessments are evident.	2
Internal control deficiencies are not identified and communicated in a timely manner to allow for corrective action to be taken.	3

#### Key governance responsibilities

19. The MFMA tasks the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
<b>Clear trail of supporting documentation that is easily available and provided in a timely manner</b>			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.		<input type="checkbox"/>
<b>Quality of financial statements and related management information</b>			
2.	The financial statements were not subject to any material amendments resulting from the audit.		<input type="checkbox"/>
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.		<input type="checkbox"/>
<b>Timeliness of financial statements and management information</b>			
4.	The annual financial statements were submitted for auditing as per the legislated deadline in section 126 of the MFMA.	<input type="checkbox"/>	

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<b>Availability of key officials during audit</b>			
5.	Key officials were available throughout the audit process.	<input type="checkbox"/>	<input type="checkbox"/>
<b>Development and compliance with risk management, effective internal control and governance practices</b>			
6.	<b>Audit committee</b>	<input type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> <li>The municipality had an audit committee in operation throughout the financial year.</li> <li>The audit committee operates in accordance with approved, written terms of reference.</li> <li>The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
7.	<b>Internal audit</b>	<input type="checkbox"/>	<input type="checkbox"/>
	<ul style="list-style-type: none"> <li>The municipality had an internal audit function in operation throughout the financial year.</li> <li>The internal audit function operates in terms of an approved internal audit plan.</li> <li>The internal audit function substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.</li> </ul>	<input type="checkbox"/>	<input type="checkbox"/>
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	<input type="checkbox"/>	<input type="checkbox"/>
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	<input type="checkbox"/>	<input type="checkbox"/>
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	<input type="checkbox"/>	<input type="checkbox"/>
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	<input type="checkbox"/>	<input type="checkbox"/>
<b>Follow-up of audit findings</b>			
13.	The prior year audit findings have been substantially addressed.	<input type="checkbox"/>	<input type="checkbox"/>
14.	SCOPA/Oversight resolutions have been substantially implemented.	<input type="checkbox"/>	<input type="checkbox"/>
<b>Issues relating to the reporting of performance information</b>			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	<input type="checkbox"/>	<input type="checkbox"/>
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.	<input type="checkbox"/>	<input type="checkbox"/>
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate.	<input type="checkbox"/>	<input type="checkbox"/>

	predetermined objectives, outputs, indicators and targets section 68 of the MFMA.		
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	<input type="checkbox"/>	

20. A clear trail of supporting documentation was not always available in respect of suspense accounts identified. There was a delay in receiving information requested from the municipality. My high-level review of the financial statements submitted for auditing identified errors. This, together with findings from our audit required the financial statements to be adjusted. The key officials were available during the audit and provided support and information although not timeously. We urge management to employ the good practices in the table above in order to facilitate a smoother audit process.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

### **Report on performance information**

21. I have reviewed the performance information as set out on pages [xx] to [xx].

### **The accounting officer's responsibility for the performance information**

22. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality, prepared by the municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

### **The Auditor-General's responsibility**

23. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*.

24. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.

25. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

### **Findings on performance information**

### **Non-compliance with regulatory requirements**

### **No or inadequate quarterly reporting on performance information**

26. No quarterly reports on the progress in achieving measurable objectives and targets of the municipality were provided for audit purposes in terms of section 34(b) of the MSA.

#### **Content of integrated development plan**

27. The integrated development plan (IDP) of the Big Five False Bay Municipality did not include the key performance indicators and performance targets determined in terms of its performance management system, as required by sections 26(i) and 41(1)(b) of the MSA and regulation 12 of the Municipal Planning and Performance Management Regulations, 2001.

#### **No mid-year budget and performance assessments**

28. Sufficient appropriate audit evidence was not provided for audit purposes to determine whether the accounting officer of the municipality assessed the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan, as required by section 72 of the MFMA.

#### **Usefulness and reliability of reported performance information**

29. The following criteria were used to assess the usefulness and reliability of the information on the municipality's performance with respect to the objectives in its IDP:

- **Consistency:** Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
- **Relevance:** Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
- **Reliability:** Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate and complete in relation to the source data or documentation?

The following audit findings relate to the above criteria:

#### **Inconsistently reported performance information**

30. The Big Five False Bay Municipality performance objectives in the IDP are not consistent with those in the annual performance report.

#### **Reported performance information not reliable**

#### **Lack of source documentation**

31. Sufficient appropriate audit evidence relating to the reported performance information of the municipality could not be obtained with regard to compliance with the MSA, sections 21(a), 34, 39(a), 40, 41(1)(d), 42, 44 and 46 as well as the MFMA, sections 53(1)(c), 54(1)(c), 71, 72 and 121 as the relevant source documentation could not be provided for audit purposes.

**Source information not accurate and complete**

32. The source information or evidence provided to support the reported performance information with regard to the Developed Housing Sector Plan did not adequately support the accuracy and completeness of the facts.

#### **APPRECIATION**

33. The assistance rendered by the staff of the Big Five False Bay Municipality during the audit is sincerely appreciated.

Pietermaritzburg

30 November 2009



**AUDITOR-GENERAL  
SOUTH AFRICA**

*Auditing to build public confidence*